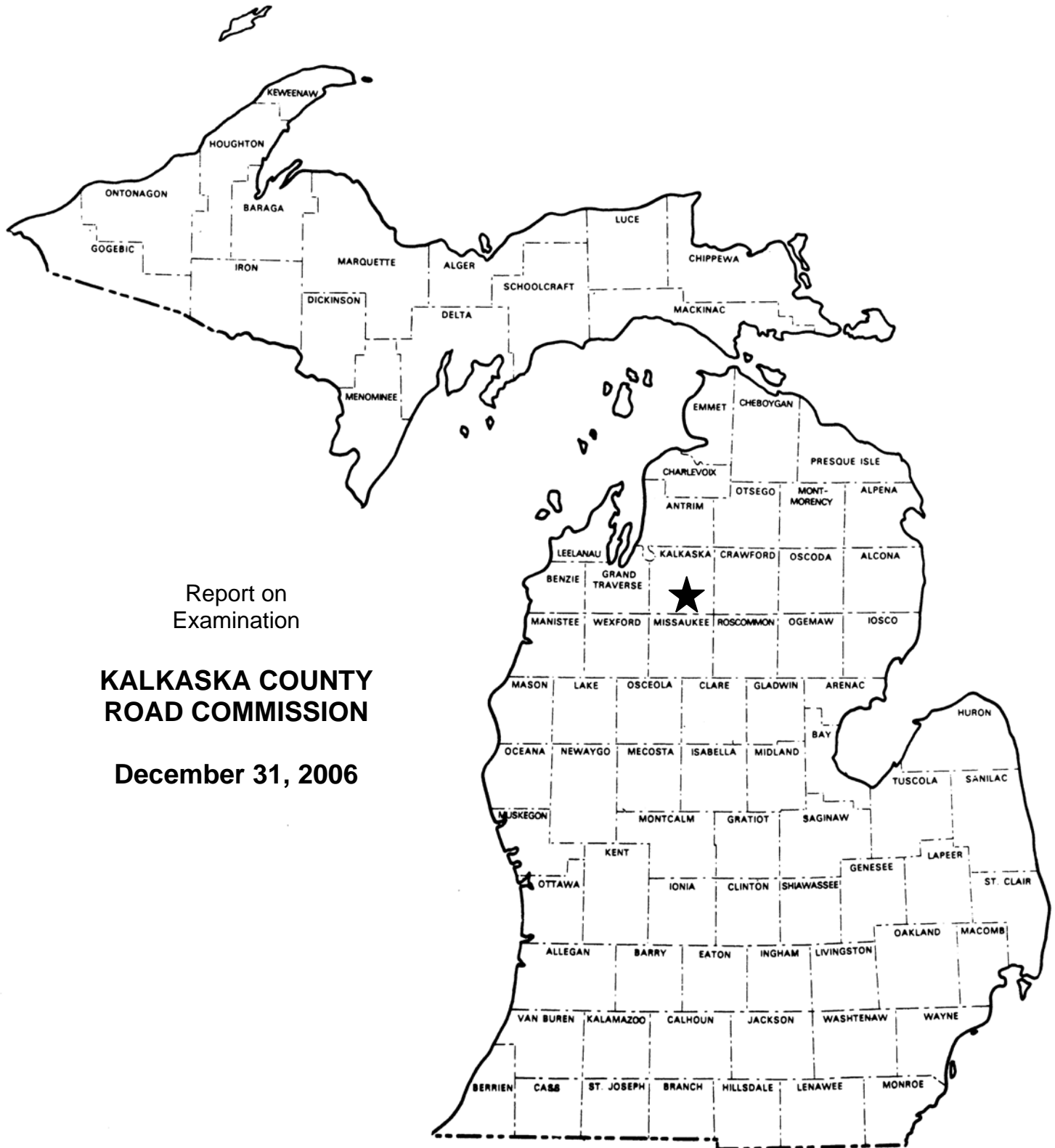


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**KALKASKA COUNTY
ROAD COMMISSION**

December 31, 2006

KALKASKA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

George Nice
Chairperson

Russ Naasko
Vice Chairperson

Robert Crambell
Member

John Rogers
Manager

Lori Harbour
Clerk

COUNTY POPULATION--2000
16,571

STATE EQUALIZED VALUATION--2006
\$1,014,181,991



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 20, 2007

Kalkaska County Road Commission
Board of County Road Commissioners
1049 Island Lake Road
Kalkaska, Michigan 49646

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalkaska County Road Commission, as of December 31, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2007, on our consideration of the Kalkaska County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalkaska County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

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KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kalkaska County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the General Fund, reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's Major Fund begins on page 4 and provides detailed information about the Major Fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 6.94% from \$12,447,640 to \$13,311,602 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of year ended December 31, 2006 follows:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 968,235	\$ 930,957	\$ (37,278)	-3.85%
Capital Assets	<u>12,640,269</u>	<u>13,135,971</u>	<u>495,702</u>	<u>3.92%</u>
Total Assets	<u>13,608,504</u>	<u>14,066,928</u>	<u>458,424</u>	<u>3.37%</u>
Current and Other Liabilities	440,499	178,736	(261,763)	-59%
Long-Term Liabilities	<u>720,365</u>	<u>576,590</u>	<u>(143,775)</u>	<u>-19.96%</u>
Total Liabilities	<u>1,160,864</u>	<u>755,326</u>	<u>(405,538)</u>	<u>-34.93%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	12,033,304	12,715,031	681,727	5.67%
Restricted	<u>414,336</u>	<u>596,571</u>	<u>182,235</u>	<u>43.98%</u>
Total Net Assets	<u>\$ 12,447,640</u>	<u>\$ 13,311,602</u>	<u>\$ 863,962</u>	<u>6.94%</u>

The restricted net assets decreased by \$182,235 during 2006. The primary reason for the increase was a decrease in primary and local routine and preventive maintenance expenses and a slight increase in MTF. The net assets invested in capital assets-net of related debt increased by \$681,727 due to an increase in the gravel and asphalt road infrastructure.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2006 follows:

<u>Governmental Activities</u>	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percentage</u>
Program Revenue				
Licenses and Permits	\$ 26,750	\$ 35,710	\$ 8,960	33.50%
Charges for Services	1,189	3,529	2,340	196.80%
Operating Grants and Contributions				
Michigan Transportation Funds	3,252,303	3,284,300	31,997	0.98%
Investment Earnings	3,774	4,820	1,046	27.72%
Capital Grants and Contributions				
Federal Grant		994,451	994,451	100.00%
State Grants	82,662	331,275	248,613	300.76%
Contributions From Local Units	263,938	433,180	169,242	64.12%
Contributions From Private Sources	36,322		(36,322)	-100.00%
General Revenue				
Gain on Equipment Disposal	4,165		(4,165)	-100.00%
Total Revenues	<u>3,671,103</u>	<u>5,087,265</u>	<u>1,416,162</u>	<u>38.58%</u>
Expenses				
Primary Routine and Preventive Road Maintenance	1,621,455	1,418,317	203,138	12.53%
Local Routine and Preventive Road Maintenance	1,499,706	1,385,425	114,281	7.62%
Net Equipment Expense	158,218	71,685	86,533	54.69%
Net Administrative Expense	332,718	368,130	(35,412)	-10.64%
Infrastructure Depreciation Expense	893,035	918,414	(25,379)	-2.84%
Compensated Absences	7,153	42,250	(35,097)	-490.66%
Interest Expense	22,420	19,086	3,334	14.87%
Total Program Expenses	<u>4,534,705</u>	<u>4,223,307</u>	<u>311,398</u>	<u>6.87%</u>
Increase in Net Assets	<u>(863,602)</u>	<u>863,958</u>	<u>1,727,560</u>	<u>-200.04%</u>
Ending Net Assets	<u>\$ 12,447,644</u>	<u>\$ 13,311,602</u>	<u>\$ 863,958</u>	<u>6.94%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2006, the fund balance of the General Operations Fund increased \$224,483 as compared to a decrease of \$336,638 in the fund balance for the year ended December 31, 2005. Total revenues were \$5,087,265, an increase of \$1,416,162 as compared to last year. This change in revenues resulted primarily from an increase in Federal and State Grants, MTF and Township Contributions. Total expenditures were \$4,862,783, an increase of \$829,437 as compared to last year. This change in expenditures is due primarily to an increase in primary road preservation and structural improvements, and a decrease in primary and local routine and preventive maintenance.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund is as follows:

	12/31/05 Operating Fund	12/31/06 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Licenses and Permits	\$ 26,750	\$ 35,710	\$ 8,960	33.50%
Federal Grants		994,451	994,451	100.00%
State Grants	3,334,965	3,615,575	280,610	8.41%
Contributions From Local Units	263,938	433,181	169,243	64.12%
Charges for Services	1,189	3,529	2,340	196.80%
Interest and Rents	3,774	4,820	1,046	27.72%
Other Revenue	40,487		(40,487)	-100.00%
Total Revenues	<u>3,671,103</u>	<u>5,087,266</u>	<u>1,416,163</u>	<u>38.58%</u>
Expenditures				
Public Works	3,767,405	4,657,672	(890,267)	-23.63%
Capital Outlay	70,011		70,011	100.00%
Debt Service	196,020	205,111	(9,091)	-4.64%
Total Expenditures	<u>4,033,436</u>	<u>4,862,783</u>	<u>(829,347)</u>	<u>-20.56%</u>
Excess of Revenues Over (Under) Expenditures	<u>(362,333)</u>	<u>224,483</u>	<u>586,816</u>	<u>-161.95%</u>
Other Financing Sources				
Installment Purchase Proceeds	25,695		(25,695)	100
Total Other Financing Sources	<u>25,695</u>	<u>-</u>	<u>(25,695)</u>	<u>-100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(336,638)</u>	<u>224,483</u>	<u>561,121</u>	<u>-166.68%</u>
Fund Balance--Beginning of Year	<u>864,376</u>	<u>527,738</u>	<u>(336,638)</u>	<u>-38.95%</u>
Fund Balance--End of Year	<u>\$ 527,738</u>	<u>\$ 752,221</u>	<u>\$ 224,483</u>	<u>42.54%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board did not amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. The budget was amended after the year ended. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2006 was the same as the original budget, since the budget amendment was made after the year end. The actual revenue recognized during 2006 was \$299,309 more than the final amended budget due to the Road Commission receiving more township contributions.

The final and original expenditure budget for 2006 was \$118,849 less the actual expenditures primarily due to the Road Commission having higher primary road projects and maintenance expenditures, an increase in net equipment expense and a decrease in capital outlay expenditures than originally planned.

Capital Assets

As of December 31, 2006, the Road Commission had invested \$13,135,971 in capital assets. This amount represents a net increase (including additions and deductions) of \$495,702 or 3.92% as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 95,964	\$ 95,964	0.00%
Subtotal	95,964	95,964	0.00%
Capital Assets Being Depreciated			
Buildings	582,153	582,153	0.00%
Equipment	3,888,095	3,888,095	0.00%
Infrastructure--Roads and Bridges	19,483,406	20,402,107	100.00%
Subtotal	23,953,654	24,872,355	3.84%
Total Capital Assets	24,049,618	24,968,319	3.82%
Total Accumulated Depreciation	(11,409,349)	(11,832,348)	3.71%
Total Net Capital Assets	<u>\$ 12,640,269</u>	<u>\$ 13,135,971</u>	<u>3.92%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The infrastructure recorded during 2006 will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Infrastructure--Roads	<u>\$ 1,786,169</u>
Total Additions	<u><u>\$ 1,786,169</u></u>

There were no new installment purchase agreements entered into during 2006. Prior to 2006, there were three installment purchase agreements. The beginning principal balance was \$606,965 and there was \$186,025 paid in principal during 2006, leaving a balance due of \$420,940.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission anticipates no township involvement at the time the 2007 budget was prepared, nor did they anticipate any new capital purchases for the year. The Road commission based the MTF funds projected in the 2007 budget by taking an average of the MTF funds received in 2006. In 2006, the Road commission derived approximated 65% of its revenues from the Michigan Transportation Funds, approximately 26% of its revenues from Federal and State grants and 9% of its revenues from local contributions during 2006. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are not anticipating having any road projects approved or township contributions during 2007, however, the Road Commission will not deny any township request to participate and/or contribute to road projects. During 2007, we expect to receive approximately \$2,000,000 in Federal and State Aid including a grant from Local Jobs Today for road projects and also increase our preservation and structural improvement by the same amount. The above items were considered when adopting the budget for 2007.

Contacting the Road Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Kalkaska County Road Commission, Administrative Office at 1049 Island Lake Road, Kalkaska, Michigan 49646, Phone Number (231) 258-2242.

**KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006**

EXHIBIT A

ASSETS

Bank Deposits	\$ 101,143
Accounts Receivable	
Michigan Transportation Fund	463,933
Due From Retirees	11,230
Due on County Road Agreements	30,519
Inventories	
Road Materials	188,464
Equipment Parts and Materials	135,668
Capital Assets (Net of Accumulated Depreciation)	<u>13,135,971</u>
Total Assets	<u>14,066,928</u>

LIABILITIES

Current Liabilities	
Accounts Payable	133,014
Accrued Liabilities	45,722
Non-Current Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	178,008
Installment Purchase Agreements Payable--Due in More Than One Year	242,932
Vested Employee Benefits Payable	<u>155,650</u>
Total Liabilities	<u>755,326</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	12,715,031
Restricted for County Roads	<u>596,571</u>
Total Net Assets	<u><u>\$13,311,602</u></u>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,418,317
Local Road Maintenance	1,385,425
Net Equipment Expense	71,685
Net Administrative Expense	368,130
Infrastructure Depreciation	918,414
Compensated Absences	42,250
Interest Expense	<u>19,086</u>
Total Program Expenses	<u>4,223,307</u>
Program Revenue	
Charges for Services	
Licenses and Permits	35,710
Charges for Services	3,529
Operating Grants and Contributions	
Michigan Transportation Funds	3,284,300
Investment Earnings	4,820
Capital Grants and Contributions	
Federal Grants	994,451
State Grants	331,275
Contributions From Local Units	<u>433,180</u>
Total Program Revenue	<u>5,087,265</u>
Net Program Revenue	<u>863,958</u>
Change in Net Assets	<u>863,958</u>
Net Assets	
Beginning of Year	<u>12,447,644</u>
End of Year	<u><u>\$13,311,602</u></u>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2006

EXHIBIT C

GOVERNMENTAL
FUND TYPE

General
Operating
Fund

ASSETS

Bank Deposits	\$ 101,143
Accounts Receivable	
Michigan Transportation Fund	463,933
Due From Retirees	11,230
Due From Township Agreements	30,519
Inventories	
Road Materials	188,464
Equipment Parts and Materials	<u>135,668</u>
Total Assets	<u><u>\$ 930,957</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 133,014
Due to State	
Accrued Liabilities	<u>45,722</u>
Total Liabilities	<u>178,736</u>
Fund Equities	
Reserved for Inventory	324,132
Fund Balance	
Unreserved and Undesignated	<u>428,089</u>
Total Fund Equities	<u>752,221</u>
Total Liabilities and Fund Equities	<u><u>\$ 930,957</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 752,221
---------------------------------	------------

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,135,971
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	
---	--

Certain liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(576,590)
--	-----------

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds.	-
---	---

The interest accrued up to the end of the year, but not due until the following	<u>-</u>
---	----------

Net Assets of Governmental Activities	<u><u>\$13,311,602</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2006

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 35,710
Federal Aid	994,451
State Aid	3,615,575
Contributions From Local Units	433,181
Charges for Services	3,529
Interest and Rents	<u>4,820</u>
Total Revenues	<u>5,087,266</u>
Expenditures	
Public Works	4,657,672
Debt Service	<u>205,111</u>
Total Expenditures	<u>4,862,783</u>
Excess of Revenues Over (Under) Expenditures	<u>224,483</u>
Fund Balance--January 1, 2006	<u>527,738</u>
Fund Balance--December 31, 2006	<u><u>\$ 752,221</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 224,483

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 495,700
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the 186,025
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense) (42,250)

Change in Net Assets of Governmental Activities \$ 863,958

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Kalkaska County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Kalkaska County Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Kalkaska County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Kalkaska County Road Commission as assets with an initial individual cost of more than \$300 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board did not conduct a public budget hearing prior to the adoption of an operating budget. The budget is amended as necessary during the year, and is approved by the board.

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the amended budget:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Preservation/Structural Improvements	\$ 1,468,934	\$ 1,694,867	\$ (225,933)
Primary Routine and Preventive Road Maintenance	1,300,000	1,418,317	(118,317)
Local Preservation/Structural Improvements	50,000	91,303	(41,303)
Net Equipment Expense	(70,000)	71,684	(141,684)
Net Administrative Expense	340,000	368,130	(28,130)
Principal	165,000	186,025	(21,025)

NOTE D--CASH AND INTEREST-BEARING DEPOSITS

MCL 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated one bank for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 100,893
Petty Cash and Cash on Hand	<u>250</u>
Total	<u>\$ 101,143</u>

The bank balance of the primary government's deposits is \$220,849, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction (e.g., broker-dealer), a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/31/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 95,964			\$ 95,964
Subtotal	95,964	\$ -	\$ -	95,964
Capital Assets Being Depreciated				
Buildings	582,153			582,153
Road Equipment	3,778,121			3,778,121
Shop Equipment	34,523			34,523
Office Equipment	75,451			75,451
Infrastructure--Bridges	1,122,538			1,122,538
Infrastructure--Roads	18,360,868	1,786,169	867,468	19,279,569
Total	23,953,654	1,786,169	867,468	24,872,355
Less Accumulated Depreciation				
Land Improvements	51,989	3,133		55,122
Buildings	441,307	20,242		461,549
Road Equipment	2,864,538	347,588		3,212,126
Shop Equipment	34,523			34,523
Office Equipment	72,305	1,090		73,395
Infrastructure--Bridges	318,694	30,087		348,781
Infrastructure--Roads	7,625,993	888,327	867,468	7,646,852
Total	11,409,349	1,290,467	867,468	11,832,348
Net Capital Assets Being Depreciated	12,544,305	1,786,169	1,290,467	13,040,007
Total Net Capital Assets	\$ 12,640,269	\$ 1,786,169	\$ 1,290,467	\$ 13,135,971

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 347,588
Indirect Equipment	23,375
Net Administrative Expenses	
Office Equipment	1,090
Infrastructure Depreciation Expense	<u>918,414</u>
Total Depreciation Expense	<u>\$ 1,290,467</u>

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
Installment Purchase Agreement for a four wheel drive loader paid in quarterly installments of \$7,711 at a rate of 3.9%.	\$ 73,083	\$ (28,404)	\$ 44,679	\$ 29,528
Installment Purchase Agreement for five trucks paid in monthly installments of \$12,295 at a rate of 3.0%.	511,321	(145,208)	366,113	138,330
Installment Purchase Agreement for a Broce Broom paid in monthly installments of \$1,186 at a rate of 10%.	22,561	(12,412)	10,148	10,148
Vested Employee Benefits				
Sick Leave Benefits	<u>113,400</u>	<u>42,250</u>	<u>155,650</u>	
Totals	<u>\$720,365</u>	<u>\$ (143,774)</u>	<u>\$576,590</u>	<u>\$178,006</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

A four wheel drive loader was purchased in July 2003 under an installment purchase agreement through John Deere. The original purchase price was \$140,813, with quarterly payments of \$7,711 at an implied interest rate of 3.9%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
07/20/03	\$140,813	3.90%	2007	\$ 29,528	\$ 1,314
			2008	<u>15,151</u>	<u>222</u>
Total				<u>\$ 44,679</u>	<u>\$ 1,536</u>

Five trucks were purchased in July 2004 under an installment purchase agreement through Northwestern Bank. The original purchase price was \$633,510, with monthly payments of \$12,295 at an implied interest rate of 3.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
07/29/04	\$ 683,510	3.90%	2007	\$138,330	\$ 9,214
			2008	142,578	4,966
			2009	<u>85,205</u>	<u>862</u>
Total				<u>\$366,113</u>	<u>\$ 15,042</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

A Broce Broom was purchased in November 2005 under an installment purchase agreement through Komatsu Financial. The original purchase price was \$25,695, with monthly payments of \$1,186 at an implied interest rate of 10.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
11/14/05	\$ 25,695	10.00%	2007	<u>\$ 10,148</u>	<u>\$ 526</u>
Total				<u><u>\$ 10,148</u></u>	<u><u>\$ 526</u></u>

Sick Leave Benefit Policy

Road Commission sick leave benefit policies provide that each employee, after six months of service, earns eight hours of sick leave for each month of employment. When an employee dies or terminates his/her employment on a voluntary basis, the employee or the employee's estate, as the case may be, will receive pay for 100% of an employee's accumulated sick leave up to the maximum accumulation of 640 hours.

Vacation Benefit Policies

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

NOTE G--DEFERRED COMPENSATION PLAN

The Kalkaska County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Kalkaska County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a). MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate which was 27.31% of the annual payroll for the union, and 21.98% for administration based on the 2004 actuarial valuation beginning on January 1, 2006.

Annual Pension Cost

During the fiscal year ended December 31, 2006, the Road Commission's contributions totaling \$297,152 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Ended December 31</u>	<u>Pension Cost (APC)</u>	<u>of APC Contributed</u>	<u>Pension Obligation</u>
2004	\$ 270,138	100%	\$0
2005	286,183	100%	\$0
2006	297,152	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 4,582,660	\$ 7,675,837	\$ 3,093,177	60%	\$ 1,125,839	275%
12/31/05	4,647,905	7,953,624	3,305,719	58%	1,045,685	316%
12/31/06	4,805,545	8,176,987	3,371,442	59%	1,123,414	300%

NOTE I--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Kalkaska County Road Commission provides post-employment health care benefits to union employees who retire from the Road Commission on or after obtaining age 55 with 20 or more years of service, all other employees on or after attaining age 62 with 20 or more years of service, or those who retire under a valid disability claim regardless of age. The health care benefits consist of the Road Commission paying the monthly health insurance for a period of three years after retirement for union employees and dependents and until death for nonunion employees. The costs of retiree's health care benefits are recognized as expenditures as claims are paid. During 2006, 16 retirees were eligible for benefits, and \$151,934 was recognized for post-employment health insurance.

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 28,000	\$ 28,000	\$ 35,710	\$ 7,710
Federal Aid				
Surface Transportation Program	743,000	743,000	621,532	(121,468)
Economic Development D Funds	457,000	457,000	372,919	(84,081)
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,860,000	1,860,000	1,859,928	(72)
Local Road	1,190,000	1,190,000	1,180,250	(9,750)
Snow Removal	240,000	240,000	234,122	(5,878)
Economic Development Funds				
Forest Funds (E)	82,663	82,663	82,662	(1)
Rural (D)	168,994	168,994	248,613	79,619
Contributions--Local Units				
Townships	-	-	431,109	431,109
County	-	-	2,072	2,072
Charges for Services				
Salvage Sales	1,200	1,200	3,289	2,089
Other Charges for Services		-	240	240
Interest and Rents				
Interest Earned	2,000	2,000	4,420	2,420
Property Rentals	100	100	400	300
Total Revenue	4,782,957	4,787,957	<u>\$5,087,266</u>	<u>\$ 299,309</u>
Fund Balance--January 1, 2006	527,738	527,738		
Total Budget	<u>\$5,310,695</u>	<u>\$ 5,315,695</u>		

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$1,468,934	\$1,468,934	\$1,694,867	\$ (225,933)
Routine and Preventive Maintenance	1,300,000	1,300,000	1,418,317	(118,317)
Local Road				
Preservation/Structural Improvements	50,000	50,000	91,303	(41,303)
Routine and Preventive Maintenance	1,600,000	1,600,000	1,385,425	214,575
Equipment Expense--Net	(70,000)	(70,000)		
Direct			\$ 770,043	
Indirect			425,186	
Operating			264,673	
Less: Equipment Rentals			<u>(1,388,218)</u>	71,684 (141,684)
Administrative Expense--Net	340,000	340,000		
Administrative Expense			368,130	
Less: Purchase Discounts			<u>-</u>	368,130 (28,130)
Capital Outlay--Net	(135,000)	(135,000)		
Capital Outlay			-	
Less: Depreciation Credits			<u>(372,054)</u>	
Equipment Retirements			<u>-</u>	(372,054) 237,054
Debt Service				
Principal	165,000	165,000	186,025	(21,025)
Interest	25,000	25,000	19,086	5,914
Total Expenditures	4,743,934	4,743,934	<u>\$4,862,783</u>	<u>\$ (118,849)</u>
Fund Balance--December 31, 2006	<u>571,761</u>	<u>571,761</u>		
Total Budget	<u>\$5,315,695</u>	<u>\$5,315,695</u>		

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$3,341,116	\$1,700,213	\$ 45,937	\$5,087,266
Total Expenditures	3,393,003	1,633,339	(163,559)	4,862,783
Excess of Revenues Over (Under) Expenditures	(51,887)	66,874	209,496	224,483
Other Financing Sources (Uses) Interfund Adjustment	28,689		(28,689)	-
Total Other Financing Sources (Uses)	28,689	-	(28,689)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(23,198)	66,874	180,807	224,483
Fund Balance--January 1, 2006	23,198	-	504,540	527,738
Fund Balance--December 31, 2006	\$ (0)	\$ 66,874	\$685,347	\$ 752,221

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$35,710	\$ 35,710
Federal Aid				
Surface Transportation Program	\$ 621,532			621,532
Economic Development D Funds	372,919			372,919
State Aid				
Michigan Transportation Fund				
Engineering	6,100	\$ 3,900		10,000
Primary Road	1,859,928			1,859,928
Local Road		1,180,250		1,180,250
Snow Removal	-	234,122		234,122
Economic Development Funds				
Forest Funds (E)	26,482	56,180		82,662
Rural Primary (D)	248,613	-		248,613
Contributions--Local Units				
Townships	205,348	225,761		431,109
County			2,072	2,072
Charges for Services				
Salvage Sales			3,289	3,289
Other Charges for Services			240	240
Interest and Rents				
Interest Earned	194	-	4,226	4,420
Property Rentals			400	400
Total Operating Revenue	\$3,341,116	\$1,700,213	\$45,937	\$5,087,266

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$1,694,867			\$1,694,867
Routine and Preventive Maintenance	1,418,317			1,418,317
Local Road				
Preservation/Structural Improvements		\$ 91,303		91,303
Routine and Preventive Maintenance		1,385,425		1,385,425
Equipment Expense--Net (Per Exhibit H)	30,129	38,171	\$ 3,384	71,684
Administrative Expense--Net (Per Exhibit H)	249,690	118,440		368,130
Capital Outlay--Net (Per Exhibit H)			(372,054)	(372,054)
Debt Principal Payments			186,025	186,025
Interest Expense			19,086	19,086
Total Expenditures	<u>\$3,393,003</u>	<u>\$ 1,633,339</u>	<u>\$ (163,559)</u>	<u>\$4,862,783</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 20, 2007

Board of County Road Commissioners
Kalkaska County Road Commission
1049 Island Lake Road
Kalkaska, Michigan 49646

RE: Report on Internal Control over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance with Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, as of and for the year ended December 31, 2006, and have issued our report thereon dated September 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalkaska County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kalkaska County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Kalkaska County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kalkaska County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in

the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as 05-04, 05-05, 05-07, 05-08 and 06-01.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Kalkaska County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 05-05, 05-07, and 05-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalkaska County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying comments and recommendations as items 05-09, 05-11, and 06-02.

We also noted other matters that we reported to the management of the Kalkaska County Road Commission in the accompanying comments and recommendations as items 06-03 through 06-07.

The Road Commission's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Road Commission's response and accordingly, we express no opinion on it.

This report is intended solely for the information of the Kalkaska County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Kalkaska County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kalkaska County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The Road Commission is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material and reportable weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. Listed below are significant deficiencies in the internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

MATERIAL INTERNAL CONTROL WEAKNESSES

Capital Assets--Reporting Non-Depreciable Infrastructure
(Repeat From 2005 Audit)

Finding 05-05

Condition: The Road Commission has not split out the nondepreciable portion of the road infrastructure and has reported all road related costs as depreciable.

Criteria: The Accounting Procedures Manual for Road Commissions states: "Purchase of land for roadway or right-of-way will be set up in a separate capital asset account, by year, which will not be depreciated. This information MUST be included from 1980 to present. Any purchase of land or right-of-way prior to 1980, for which the road commission has documentation of purchase price, should be included."

"Land improvements (including excavation, ditching, grading, tree removal, and subgrade preparation) are to be recorded as capital assets by year, and will not be depreciated. Use 1999 or 2000 project data for your road commission to arrive at a percentage of projects normally included as land improvements and apply this percentage to all years prior to current year. Use actual data from date of implementation forward."

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Recommendation: We recommend that the Road Commission use the most current data available to determine the portion of nondepreciable expenses of the construction and preservation/structural improvements and apply that percentage to the prior year's infrastructure. Nondepreciable costs include excavation, ditching, grading, tree removal and subgrade preparation. The purchase of land for roadway or right-of-way should be setup in a separate capital asset account and will not be depreciated. Initial installation of guard rail will be included with the project cost.

Management's Response: The Kalkaska County Road Commission has contracted with a CPA who will help with the separation of the nondepreciable portion of the road infrastructure and will subsequently be able to report separately the depreciable and nondepreciable portion of the road infrastructure.

Receipting Process

Finding 05-07

(Repeat From 2005 Audit)

Condition:

1. One person is involved in writing receipts; preparing transmittal advices; posting receipts; and reconciling the receipts with the receipt register, transmittal advice and county treasurer's receipt.
2. Voided receipts are not kept intact and an explanation for the void is not indicated along with supervisory approval.
3. Not all monies received by the Road Commission are receipted for immediately upon receipt (i.e., map money).
4. Deposits are sometimes made only once a month.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual states, in part:

- "All copies of voided or canceled receipts must be retained in the receipt book."
- "All money must be turned over intact and numerically controlled (printer prenumbered) three part official receipts with the name of the local unit printed on the receipt must be issued for all revenues."
- "All deposits are to be made intact. Intact means that the deposit must include the checks and cash received for a specific numerical sequenced receipt group."
- "Deposits must be made timely and reconciled to official receipts."
- Strong internal control activities require the maintenance of original source documentation to be kept intact.
- "Bank deposits of funds received should be made at least weekly and more often if the amounts received are substantial."

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Recommendation: We recommend that the Road Commission implement the following procedures, as necessary:

1. Segregating the duties of receipting, preparing the transmittal, posting receipts and reconciling monthly receipts.
2. All copies of voided receipts be properly voided and kept intact and an explanation given for the reason for the "void" as well as supervisory approval.
3. All monies received by the Road Commission should be receipted for immediately upon receipt (this should include map money).
4. All monies should be deposited at least bi-monthly or more frequently if there is a significant amount of cash/checks receipted.

Management's Response: The following procedure was initiated during 2007 while the 2006 audit was being preformed by the auditors:

Procedure when receipting in accounts receivables:

1. Make sure all incoming monies are receipted in the Department or Permit Receipts book.
2. Stamp all checks with "Deposit Only" stamp prior to placing monies in safe.
3. When VOIDING receipts:
 - Make sure white copy is kept intact in receipts book
 - List reason for VOIDING the receipt on the receipt
 - Have someone other than yourself verify the VOID by initialing the receipt

Deposit of funds at County Treasurer's Office.

1. Clerk shall count monies, complete Transmittal Sheet and record deposit in Cogitate
2. Payroll Clerk shall make the deposit with the County Treasurer's Office.
3. Payroll Clerk shall verify deposit against receipt books after reviewing by writing County Treasurer's receipt number in receipt books and initialing her verification on the last yellow copy of the receipt included in deposit.
4. Payroll Clerk, upon verifying amounts against receipt books, shall initial the Transmittal Sheet, County Treasurer's Receipt and Cogitate Journal Posting list.

It is understood there will be times that the Payroll Clerk will not be available to make the deposit, making it necessary for the Clerk or Manager to make the deposit.

Vendor/Payroll Bank Reconciliation
(Repeat From 2005 Audit)

Finding 05-08

Condition: The Road Commission was not performing the bank reconciliation for the vendor/payroll account on a timely basis during 2006. We have found that the bank reconciliations are now currently being performed on a timely basis.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel.”

SIGNIFICANT CONTROL DEFICIENCIES

Recommendation: We recommend that the Road Commission continue to reconcile their bank and cash accounts on a timely basis with the accounting records and that all bank accounts be recorded in the accounting records. The activity in the bank should reconcile to the general ledger and provide a means to correct errors in posting.

Management’s Response: *The Kalkaska County Road Commission bank reconciliations are now currently being performed on a timely basis.*

Capital Assets--Capitalization Policy (Repeat From 2005 Audit)

Finding 05-04

Condition: The Road Commission does not have a formal capital assets threshold policy.

Criteria: The Michigan Department of Treasury suggests that the board of county road commissioners establish, by resolution or policy, a capitalization policy that specifies a dollar value or capitalization threshold that assets must exceed if they are to be capitalized. Equipment with a Schedule C equipment rental rate must be classed in the capital assets control regardless of value. The Road Commission must, of course, maintain adequate control over lower cost assets that have not been capitalized.

Recommendation: We recommend that the Road Commission adopt a capitalization policy that establishes criteria for capitalization including a capitalization threshold. A sample copy of the policy may be found on page 287 of the September 2006, “Accounting Procedures Manual for Road Commissions.”

Management’s Response: *A Capitalization Policy shall be presented to the Kalkaska County Road Commission Regular Meeting on Monday, December 12, 2007.*

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

SIGNIFICANT CONTROL DEFICIENCIES (Continued)

Internal Controls Over Payroll

Finding 06-01

Condition: During the review of the year ending December 31, 2006 and subsequent review, the Road Commission allowed the following exceptions from the union agreement, which indicates a lack of internal controls over payroll:

- An employee was paid for subpoena pay for personal business at the court, but the union contract only allows for jury duty as prescribed by applicable law. Satisfactory evidence must be obtained that one reported and/or performed such jury duty for the hours claimed.
- Employees had negative balances in sick leave due to payment of leave when none was available.
- Employees took sick leave in ½ hour increments when the union contract specifically states that sick leave must be used in 1 hour increments.
- Retirees health insurance benefits are paid that are not according to union contract (i.e., insurance for spouses are paid prior to the retiree's turning age 62).
- There are no job descriptions and annual evaluations for administrative personnel.

Criteria: The agreement between the road commissioners and the United Steelworkers states, in part: "The general purpose of this agreement is to set forth the wages, hours and working conditions which shall prevail for the duration of this agreement and to promote orderly and peaceful labor relations for the mutual interest of the employer, its employees and the union. Recognizing that the interest of the residents of the county and job security of the employees depend upon the employer's ability to continue to provide proper services to the residents of the county, the employer and the union, and in consideration of the mutual promises, stipulations and conditions hereinafter specified, agree to abide by the terms and provisions set forth herein for the duration of the agreement (8/24/05 through 1/7/08)."

The following articles apply to the findings listed above:

Article V--Strikes and Lockouts

Section 1. The union agrees that during the life of this agreement, neither the union, its agents nor members will authorize, instigate, aid or engage in a work stoppage, slowdown, strike or other concerted activity which interferes with the operations of the Employer. The employer agrees that during the same period there will be no lockouts.

Section 2. Individual employees or groups of employees who instigate, aid or engage in a work stoppage, slowdown, strike or other concerted activity which interferes with the operations of the employer or results in a secondary boycott type activity, during the life of this agreement, shall be disciplined or discharged in the sole discretion of the employer. The question of fact of whether an employee or group of employees has engaged in such prohibited activity shall be a proper subject for the grievance procedure commencing at the section step thereof.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

SIGNIFICANT CONTROL DEFICIENCIES (Continued)

Article VII--Leaves of Absence

Section 5. Any employee who is required to report for and/or perform jury duty as prescribed by applicable law, for each day on which he reports for and/or performs jury duty during hours he otherwise would have been scheduled to work for the Employer, shall be paid the difference between what he receives from the court as daily jury duty fees and what he would have earned from the Employer for the hours lost from work for jury duty, not to exceed eight hours of pay per working days. This provision shall not apply for any day upon which the employee was excused from jury duty in time to reasonably permit him to return to work on his shift for four or more hours unless such employee does return to work.

- a) In order to receive the payment above referred to, an employee must give the Employer prior notice that he was required to report for jury duty and must furnish satisfactory evidence that he reported for and /or performed such jury duty for the hours for which he claims such payment.

Article XI. Wages

Section 6. Due to the nature of work administered by the Employer and the importance of the work for the health and welfare of the public, it is understood and agreed the ability and willingness of any employee to work at any time is a material and conditional part of his employment subject to the provisions of the contract.....

Section 8:

- e) For any bargaining unit employee retiring after the signing of this agreement, who is between the ages of 55 and 62 and has at least 20 years of service at retirement, the Employer will provide single person coverage and contributions at the same level and in the same amount as for active employees until the retiree reaches age 62.
- f) Any employee age 62 to 65 hired prior to October 25, 2004, who retires under MERS Pension Plan with at least ten years of service, will be eligible for health insurance benefits for the retiree and his/her spouse.* Any employee age 62 to 65 hired on or after October 25, 2004, who retires under MERS Pension Plan with at least twenty years of service, will be eligible for health insurance benefits for the retiree and his/her spouse.*
- g) Any bargaining unit employee hired prior to October 25, 2004, who had at least ten years of service at retirement and who has reached the age of 65, will be eligible for single subscriber health insurance coverage complementary, for the retiree only until the retiree's death, or the retiree is covered under a health insurance policy from another employer.* At the retiree's death, all Employer contributions toward health insurance benefits will cease. If a retiree is covered by an alternate health insurance plan, he/she will be ineligible to receive Employer contributions for health insurance. Employees hired after October 25, 2004 must have at least twenty years of service in order to be eligible for the benefits set forth in this subsection.

*Benefit levels and Employer contribution will be no greater than those provided to active employees.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

SIGNIFICANT CONTROL DEFICIENCIES (Continued)

Article XII-Holiday

Section 2. To be entitled to pay for the holidays listed in the agreement, an employee must work on the last scheduled work day preceding the holiday and the first scheduled work day following the holiday unless the employee is on an authorized vacation approved in advance of the start of such holiday or because of injury, illness or family death, any one of which occurred within ten working days prior to the holiday or is recalled to work within ten working days following the holiday. Should injury, illness or death in the family, or unforeseen circumstances make it impossible for the employee to notify the employer in advance, the employee must show proof that his absence was unavoidable.

Recommendation: We recommend that the Road Commission adhere to the terms of the union contract without exceptions.

Management's Response: The Road Commission has been advised by the State Auditor and Management to adhere to the terms of the Steelworker's union contract without exceptions.

Disbursements

Finding 06-02

Condition: Vendor invoices did not include administrative approval. However, the account classification was indicated on the vendor invoices.

Criteria: Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews. According to the Standards for Internal Control, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire vendor payment and payroll process from the initiation and authorization through its final classification in summary records. According to the Uniform Accounting Procedures Manual, invoices should contain administrative approval as verification that the invoices (or timesheets) have been properly reviewed and "appropriate documentation that has been reviewed by the proper personnel must be attached for all disbursements."

Recommendation: We recommend that administrative approval be placed on all vendor invoices to document that they have been reviewed for the attributes listed above.

Management's Response: Administrative approval is now required on all vendor invoices and timesheets by administrative staff to document that they have been reviewed prior to payment of account payables and/or payroll.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instances of noncompliance with State statutes and regulations.

General Appropriation Act

Finding 05-09

(Repeated with Revision from the 2005 Audit)

Condition: The Road Commission did not hold a public hearing before passing its 2006 budget. The 2006 budget was not adopted until January 11, 2006 and the 2007 budget was not adopted until February 26, 2007. At the start of both years, the Road Commission was incurring expenditures in excess of the budget (because there was no budget adopted). The budgets that were adopted by the board were not balanced budgets and did not contain beginning or ending fund balances. The adopted budgets had expenditures exceeding revenues. The 2006 budget was amended after December 31, 2006.

During the calendar year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the budget in total and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Preservation/Structural Improvements	\$ 1,468,934	\$ 1,694,867	\$ (225,933)
Primary Routine and Preventive Road Maintenance	1,300,000	1,418,317	(118,317)
Local Preservation/Structural Improvements	50,000	91,303	(41,303)
Net Equipment Expense	(70,000)	71,684	(141,684)
Net Administrative Expense	340,000	368,130	(28,130)
Principal	165,000	186,025	(21,025)

Criteria: MCL 14.434 Section 14 states:

- (3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of section 16.
- (5) The chief administrative officer shall furnish the legislative body information the legislative body requires for proper consideration of the recommended budget. Before final passage of a general appropriations act by the legislative body, a public hearing shall be held.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

MCL 141.435 Sec. 15 states:

(1) The recommended budget shall include:

- (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
- (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.

MCL 141.436 Sec. 16 states:

- (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.
- (4) The general appropriations act shall be consistent with the uniform chart of accounts prescribed by the state treasurer.

MCL 141.437 Section 17 (1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

MCL 141.438 Section 18 states:

- (1) A member of the legislative body, chief administrative officer, administrative officer, or employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit unless the debt or obligation is permitted by law."
- (3) Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

MCL 141.439 Section 19 (1) states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The board of commissioners should take appropriate action to ensure that the budget is adopted in a timely manner as required by law and expenditures do not exceed appropriations.

Management's Response: A special meeting has been scheduled on December 28, 2007 to amend its 2007 Budget and adopt its 2008 Budget.

Granting Credit of the Road Commission
(Repeated with Revision from the 2005 Audit)

Finding 05-11

Condition: At December 31, 2006, there was a negative balance of \$11,230 in the Retiree Escrow payable account. The negative amount was the result of retirees not paying for their premiums timely, resulting in the Road Commission paying for their insurance in advance of payment. There were 9 out of 16 retirees who did not make their premium payment timely.

Criteria: The use of public money for a private purpose without compensation has been deemed by the Michigan Supreme Court to be a violation of the State Constitution, Article 9, Section 18: "The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in this constitution." For example, in *Alan v Wayne County*, 388 Mich 210 (1972), the Michigan Supreme Court ruled that a unit of government may not give away public property of value without fair compensation. The Supreme Court in the decision of *Black Marsh Drainage District v. Rowe* [1958], 350 Mich. 470, held that this provision applies to all political subdivisions of the state.

Recommendation: We recommend that the Road Commission make every effort to receive insurance premiums prior to paying for insurance.

Management's Response: Office Management now makes sure all payments for retiree health insurance premiums are paid on a timely basis prior to disbursement of funds to health care provider.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Compliance With Freedom of Information Act

Finding 06-02

Condition: The Road Commission's P05-06 "Freedom of Information" policy states that a \$25 good faith deposit must be made at the time of a request with the balance to be returned if the costs do not exceed the deposit amount.

Criteria: Public Act 442 of 1976, "The Freedom of Information Act," states that: "a public body may require at the time a request is made a good faith deposit from the person requesting the public record or series of public records, if the fee authorized under this section exceeds \$50.00. The deposit shall not exceed ½ of the total fee.

Recommendation: We recommend that the Road Commission review their "Freedom of Information" policy to ensure that it is in compliance with the fees allowed under Public Act 442 of 1976.

Management's Response: The Kalkaska County Road Commission revised and adopted their FOIA Policy at the Regular Meeting scheduled on November 12, 2007, bringing them in compliance with Public Act 442 of 1976.

OTHER MATTERS

Other Post-Employment Benefits

Finding 06-03

Condition: The Kalkaska County Road Commission has other post-employment benefits (Road Commission paid retiree insurance premiums) that meet the requirements established under Government Accounting Standards Board Statement No. 45.

Criteria: Effective during 2008, Government Accounting Standards Board (GASB) Statement No. 45 requires governmental units to retain the services of an actuary to determine and record the unfunded liability related to other post-employment benefits.

Recommendation: We recommend that the Road Commission obtain an actuarial report or use an authorized alternative method to determine the unfunded liability related to other post-employment benefits.

Management's Response: Management is in the process of getting in touch with companies who prepare actuarial reports to determine the unfunded liability related to other post-employment benefits to present to the Commissioners for review and/or approval. It is Management's intention to obtain an actuarial report for the year 2007.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Investment Policy

Finding 06-05

Condition: The Road Commission has not assessed investment risks as required by GASB Statement No. 40.

Criteria: The Governmental Accounting Standards Board adopted Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3, which is effective for financial statements for periods beginning after June 15, 2004.

The GASB Statement No. 40 summary states, in part: "The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed."

Recommendation: We recommend that the Road Commission contact the county treasurer's office and formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy. Attached is a Government Finance Officers Association sample investment policy which addresses the risks in the following sections:

Section III, a. Credit Risk

Section III, b. Interest Rate Risk

Section VI, Custodial Risk (under Safekeeping and Custody)

Management's Response: The Kalkaska County Board adopted an Investment Policy at their Regular Meeting scheduled on November 26, 2007.

Commissioner's Compensation

Finding 06-05

Condition: During 2006, the road commissioners received mileage reimbursement from their home to the Road Commission office for meetings.

Criteria: Per Internal Revenue Service (IRS) rules and regulations, all compensation is taxable and shall be reported as wages.

Recommendation: We recommend that the Road Commission include the travel compensation for in house meetings as part of the payroll system to be taxed according to IRS regulations.

Management's Response: Office Management staff now pays mileage to Commissioners as part of the payroll system and taxed according to IRS regulations.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Other Matters (Repeated From 2004 Audit)

Pension Plan

Finding 06-06

The Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). Each year an actuarial report is prepared to determine the future funding requirements and the unfunded actuarial liability. Summarized below is the plan's annual pension cost, unfunded actuarial accrued liability and percentage of covered payroll over the past 4 years:

<u>Year</u>	<u>Annual Pension Cost</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>UAAL as a Percent of Covered Payroll</u>
2002	\$212,415	\$2,594,522	234%
2003	225,478	2,756,973	268%
2004	270,138	3,093,177	275%
2005	286,183	3,305,719	316%
2006	297,152	3,371,442	300%

Recommendation: We recommend that the board review the full actuarial report separately issued by MERS as part of their budgeting process and future planning. Before any additional plan changes are made, we recommend that the board be fully cognizant of the impact it will have of the future funding requirements of the pension plan.

Management's Response: The Road Commission has been advised by the State Auditor and Management.

Accounting

Finding 06-07

As in the prior year, the final accounting adjustments at year end and the Michigan Department of Transportation's Act 51 report were not completed timely. The audit fieldwork did not begin until May and could not be completed until the books were closed. This is the forth year that there has been such a delay.

We recommend that the clerk and the road commissioners evaluate the cause and take steps to ensure that the final adjustments be made by the end of February to allow the Road Commission to be ready for an audit in February or March.

Management's Response: The Clerk feels confident that all final account adjustments for year end and Transportation's Act 51 Report will be filed in a timely manner in 2008.